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ON  
INSURANCE AND CREDIT FOR SUSTAINABLE  
FISHERIES DEVELOPMENT IN ASIA**

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**INSURANCE AND CREDIT FACILITIES FOR  
THE FISHING INDUSTRY IN MALAYSIA**

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*Abstract*

Fisheries play only a minor role in the Malaysian economy but are important nutritionally, fish being a greatly preferred food as indicated by a per caput consumption of 37 kg pa. Small scale inshore fisheries continue to provide the greater part of the catch of marine fish. Aquaculture, while developing relatively slowly, is an important earner of foreign exchange, as is the rapidly expanding aquarium fish industry. A number of credit schemes in support of the fishing industry have been introduced via the Agriculture Bank. However, there is currently no formal, commercial scheme specifically catering to fisheries. This is partly because of the lack of confidence in and knowledge of the fishing industry on the part of insurance companies and partly due to the preference of fishermen for traditional simpler, informal credit/loan arrangements with money lenders and fish dealers to cover emergencies. A personal accident/hospital expenses insurance scheme for fishermen introduced through fishermen's associations was, for similar reasons, not widely welcomed by the fisherfolk until the government made such insurance cover obligatory for all crew members before an annual fishing licence could be renewed. The author recommends that, in order to facilitate capital investment and risk management in Malaysian fisheries, a feasibility study reviewing successful experiences in other countries with fisheries insurance should be undertaken to provide a sound basis for the design and introduction of such an insurance scheme for Malaysia.

## FISHING INDUSTRY IN MALAYSIA

Malaysia is endowed with a long coastline both in Peninsular Malaysia and in Sabah and Sarawak. The country has about 150,000 km<sup>2</sup> of territorial waters and 450,000 km<sup>2</sup> of EEZ. The fishing industry plays a minor but none the less significant role in the Malaysian economy. In 1994, annual fish production was valued at RM2.949 billion which is approximately 1.61% of the Gross Domestic National Product (GNDP) or 10.3% of the GDNP of the overall agriculture sector. Traditionally, a large number of the coastal inhabitants have worked as fishermen but now the number has dwindled to only 80,000 (see Table 1) because of the availability of opportunities in other sectors. However, the population's preference for fish as a source of protein remains high as indicated by the per capita consumption at 37 kg/annum.

The fishing industry consists largely of small scale inshore activities confined to within 30 nautical miles of the coastal waters. The Department of Fisheries Malaysia licensed 31,403 fishing vessels to operate such gears as purse seines, trawls, gill nets, long lines and others in national waters in 1994 (Table 1). The commercial deep sea fishing vessels (70 GRT and above) numbered only 520. The fisheries are divided into four regions i.e West Coast Peninsula, East Coast Peninsula, Sarawak and Sabah. Although the structure of the industry is similar, each region has distinct characteristics in the status of their resource and stage of development. The Straits of Malacca is the most intensively fished as most fishermen and fishing vessels are found here. Comparatively, the waters off Sabah and Sarawak have not been fully exploited to their potential.

The total marine landings in 1994 were 1.065 million mt. (Table 2) and aquaculture contributed an additional 10,00 mt. (See Table 3). The inshore fisheries recorded 0.9 million mt, the balance being from the deep sea fishing fleet. While landings from the inshore waters have stabilized, the deep sea fleet has steadily increased its share, reflecting recent government policy and encouragement for expansion of the fleet.

Even though aquaculture was introduced several centuries ago, farmers have only lately shifted from the subsistence to the commercial level. Highly valued fish such as eels, sea bass and tiger prawns are cultured for export. The government realizes the importance of aquaculture not only to supplement capture fishery production but its strong potential as a foreign exchange earner. The areas identified as suitable for aquaculture are 290,200 hectares of coastal land, mudflats, lakes, canals, dams etc. However, aquaculture development remained slower than in neighboring countries.

The aquarium fish industry began to thrive in the 1980s. The number of farmers has increased from 18 to 330. More than 188 million aquarium fish valued at RM33.7 million were exported in 1993, a big improvement from the 9.4 million fish valued at RM0.88 million in 1987. There is great potential for growth in the industry, considering the global market, and the promotion done by the government. It has attracted many investors.

## CREDIT

Credit constitutes an instrument to secure capital in order to hasten the process of achieving desired objectives, whether they relate to product or consumption. It helps to speed up development if it is used for productive purposes e.g procurement of new technology or equipment can increase productivity. It will boost incomes and profits improving financial standing. However, credit creates fear or anxiety to the borrowers especially if the income is generated by activities for which the credit was taken.

Since ancient days, the richer fishermen normally borrowed capital from close relatives and friends but poor people had to get credit from vessel owners, fish dealers or local moneylenders at reasonable interest, but binding them forever. This type of credit is purely based on kinship and trust with little collateral. Fishermen prefer it because it is within easy access and does not involve much paperwork; however, these arrangements may not be able to fulfill large demand for credit because of the limited capital. The fishing vessel owners normally use credit to build new vessels, repair vessels or as rolling capital during hard times while the crew borrow more for their subsistence.

The government introduced a number of credit schemes for the fishing industry through the Ministry of Agriculture because at times the fishermen received raw deals in term of fish prices from the fish dealers to whom they are bonded financially. Fishermen can now apply for loans from the Agriculture Bank at low interest rates to repair and buy new fishing equipment, vessels, to use in fish processing, fish marketing and to start aquaculture projects. The bank can give up to 80 % of the cost of a project and funds are released according to its progress. Collateral is required for high credit but for small loans only two personal guarantors suffice. The repayment period depends on the viability of the project and the capability of the borrower.

## INSURANCE

Currently there is no insurance scheme specifically catering for the fishing industry because most insurance companies in Malaysia concentrate their business on life insurance, motor vehicle and marine insurance etc. The agriculture sector including fisheries has long been neglected. The characteristics of the fishing industry do not attract great interest from the insurance companies. Since most of the fishing vessels are made of wood and do not meet the Standard Loydds criteria, standard, no insurance company will accept them. These vessels are not cheap. It may cost RM600,000 to construct a 70 GRT deep sea vessel and RM100,000 for a 20 GRT vessel. Fishing is a very risky business and yet fishermen are denied the right to cover their investment.

In order to protect the fishermen, the National Fishermen's Association elaborated with a number of commercial insurance companies a personal insurance scheme which provides the family with benefits if an accident should happen to members of the Association. They can take further coverage for hospitalization. The local fishermen's associations became agents for the insurance scheme. Unfortunately, fishermen responded poorly to the scheme even though the premium was only RM10 per year per person. Most fishermen did not understand the scheme very well and saw it as a burden. They did not regard their occupation as hazardous and risky. Some rejected the idea because of their religious belief. The fishermen's associations failed to sell the concept because they were not trained in insurance and marketing of insurance policies. They were more interested in the commission than advising or providing the service to their clients. When the Department of Fisheries Malaysia introduced the requirement that all crew members must have insurance cover before a boat's annual fishing licence could be renewed, the scheme picked up. The relatively wealthier boat owners had to pay for their crew's premium. However, fishermen complain that they have difficulties in claiming compensation as the agents are not very helpful.

The State of Terengganu initiated and implemented a welfare scheme which pays compensation to Terengganu-born fishermen who were born in the state if they meet with accidents at sea. This scheme was introduced in 1978 because of the absence of an insurance scheme for the fishermen. In 1995, the State paid out RM164,085 to 142 fishermen. The amount of compensation depends on the type of accident; loss of life RM6,000; injury RM4,000; loss of boat 50% of the boat value or a maximum of RM4,000; repair of boat 50% or a maximum of RM1,000 ; hospitalization -RM2.00 per day up to RM60.00 per person; loss of income RM2.00 up to RM60.00 per month. In order to make a claim, the fisherman has to show proof of the accident such as a police report and the police investigation or a letter from a doctor or hospital or confirmation letter from the village head to the Department of Fisheries which will investigate and prepare the recommendation to the State Government for payment.

With the recent modernization of aquacultural practices and the need for substantial capital investment and risk management, there is a need for insurance back up. Given the right protection, the commercial enterprise will buy mortality cover for the stock and natural perils cover for the equipment. The experience and growth of the salmon aquaculture industry in Norway can be a good example for Malaysia. A local insurance company had attempted to introduce insurance cover for finfish. The insurable risks in aquaculture include mortality due to natural perils such as floods and storms; technical risks such as machinery breakdown and failure of oxygen supply and diseases. A number of causes of loss which are excluded in the insurance include a government slaughter order due to epidemic; cannibalism; mysterious disappearance; normal trade mortalities and mismanagement. The recommended underwriting guidelines for an aquaculture farm include sound and proven stock

management methods, regular stock inventory control, furnishing of stock declaration to the insurer, immediate notification of loss etc. However, details of its implementation have not yet been published.

## CONCLUSION

Malaysia, like other Third World countries, is still lagging in providing insurance facility for the fishing industry. Even though the government acknowledges the issue, there are no leading government agencies looking into the matter. Prior to implementation of an insurance scheme Malaysia needs to conduct a feasibility study which looks into the models from various countries (e.g Canada). Fisheries, shipping and insurance experts and the fishermen will have to discuss this issue together.

Presently, with improvement in communication systems and information accessibility, fishermen have better opportunity to get credit loans from commercial banks, NGOs and various government agencies. Many new programmes have been introduced by the government such as poverty eradication, boosting the nation's food production and development of small and medium scale industries which come with various incentives and credit facilities. Unfortunately, many fishermen still prefer taking loans from the local moneylenders or fish dealers because they do not like the hassle of filling up so many forms and having to go to the nearest bank.

The fishing industry can only be sustainable if everybody collaborates in supporting and helping it.

Table 1: Number of Fisherman and Number of Licensed Fishing Vessels by State, 1994

State	Number of Fishermen	Number of Fishing Vessels			Total
		Inboard-powered	Outboard-powered	Non-powered	
PERLIS	4,079	561	88	1	650
KEDAH	5,942	1,138	512	5	1,655
PENANG	2,371	536	744	14	1,294
PERAK	7,862	3,305	595	92	3,992
SELANGOR	5,442	2,139	232	102	2,473
NEGERI SEMBILAN	291	50	96	1	147
MALACCA	1,236	191	583	27	801
WEST JOHORE	3,521	950	1,343	132	2,425
KELANTAN	3,596	811	169	0	980
TERENGGANU	9,133	2,190	39	7	2,236
PAHANG	4,748	942	156	9	1,107
EAST JOHORE	3,974	864	430	34	1,328
Sub Total	52,195	13,677	4,987	424	19,088
SARAWAK	7,316	2,133	901	7	3,041
SABAH	19,819	2,608	3,939	2,597	9,144
W.P LABUAN	472	21	109	0	130
Grand Total	79,802	18,439	9,936	3,028	31,403

Table 3: Estimated Productions of Fish, Cockles, Mussels and Oysters by State and Culture System, 1994  
(Quantity in tonnes)

State	Freshwater				Brackishwater					Total (Tonnes)
	Ponds	Ex-Mining Pools	Cages	Cement Tanks	Ponds	Cages	Cockles	Mussels	Oysters	
PERLIS	45.28	0.00	0.00	0.00	93.96	16.26	0.00	0.00	0.00	155.50
KEDAH	312.17	0.00	0.00	3.98	587.11	118.08	395.23	0.00	7.81	1,424.38
PENANG	50.44	0.00	0.00	0.00	567.32	1,173.36	14,477.27	20.46	0.00	16,288.85
PERAK	748.67	1,556.32	112.92	164.81	1,226.15	1,576.12	50,880.90	3.27	0.64	56,269.80
SELANGOR	669.52	130.33	224.86	676.64	931.06	1,147.66	15,564.48	33.50	0.80	19,378.85
NEGERI SEMBILAN	927.32	19.67	170.95	19.66	113.24	0.00	0.00	7.72	0.00	1,258.56
MALACCA	245.28	0.00	6.96	4.23	49.50	8.35	0.00	39.57	0.00	353.89
JOHORE	569.33	0.00	18.55	52.62	793.89	806.90	464.46	856.72	0.75	3,565.22
PAHANG	3,779.88	40.89	147.69	7.43	347.47	0.86	0.00	0.00	0.00	4,324.22
TERENGGANU	96.85	0.00	111.13	4.29	54.77	7.04	0.00	0.00	6.26	280.34
KELANTAN	303.57	0.00	0.00	15.15	145.41	37.18	0.00	0.00	0.59	501.90
SARAWAK	721.00	0.00	620.00	5.00	50.00	32.00	0.00	0.00	0.00	1,428.00
SABAH	6,015.00	0.00	0.00	0.00	1,600.00	703.00	552.70	8.00	5.50	8,884.20
TOTAL	14,484.31	1,747.21	1,413.06	953.81	6,559.88	5,628.81	82,335.04	969.24	22.35	114,113.71

Table 2: Quantity and Value of Marine Fish Landings by State, 1994

Quantity & Value		Quantity (Tonnes)	Value (RM)
State			
PERLIS		36,691	100,676,227
KEDAH		72,633	157,914,439
PENANG		40,998	132,105,802
PERAK		196,145	474,403,000
SELANGOR		92,873	196,980,803
NEGERI SEMBILAN		561	4,840,936
MALACCA		1,677	11,409,862
WEST JOHORE		18,724	86,193,683
KELANTAN		33,086	59,827,474
TERENGGANU		109,509	320,540,997
PAHANG		111,538	196,904,975
EAST JOHORE		70,644	114,570,301
Sub-Total		785,079	1,856,368,499
SARAWAK		95,624	276,951,710
SABAH		160,328	398,959,010
W.P. LABUAN		24,554	52,015,557
Grand Total		1,065,585	2,584,294,776

**Table 4: Compensation to Fishermen by the State Government of Terengganu 1995**

Type of Claim	No. of People	Compensation Given Out
Loss of Life	4	24,000
Injury	5	4,500
Hospitalisation	46	15,240
Loss of Working Days	49	6,610
Loss of Fishing Boat	3	30,000
Boat repairs	35	83,735
Total	142	164,085